



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**February 06, 2006**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Union Bank, National Association  
Charter Number 23330**

**3631 E. Baseline Road  
Gilbert, Arizona 85234**

**Comptroller of the Currency  
Arizona & New Mexico  
9633 South 48th Street Suite 265  
Phoenix, Arizona 85044**

**NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.**

**INSTITUTION'S CRA RATING:** This institution is rated “Outstanding.”

State Name: Arizona

Rating: Outstanding

State Name: Iowa

Rating: Outstanding

The overall CRA performance of Union Bank, National Association (Union Bank) is *Outstanding*. This interstate bank has branches in the states of Arizona and Iowa. Arizona has the larger lending presence in a major metropolitan statistical area (MSA) and greater commercial opportunities, but Iowa offers agricultural opportunities to diversify lending in a rural, non-MSA setting. Conversely, Arizona has significantly more competition, while the non-MSA Iowa market is designated as underserved.

Primary factors contributing to the bank’s rating include the following.

- The loan to deposit (LTD) ratio is more than reasonable. There is only one LTD for the bank-wide performance.
- A majority of the bank’s loans are made inside its combined interstate assessment area (AA).
- Borrower distribution of loans, including loans to low- and moderate-income (LMI) borrowers and businesses/farms of different sizes reflects excellent penetration given the demographics of each portion of the interstate AA.
- Geographic distribution of loans, including LMI census tracts (CTs), reflects excellent dispersion throughout the Arizona AA. The Iowa AA consists entirely of middle-income CTs, so geographic analysis would not be meaningful.

## **DESCRIPTION OF INSTITUTION**

Union Bank was originally chartered on May 1, 1998, as Union Bank of Arizona, N.A. After merging with an affiliate bank in Corning, Iowa (First Community National Bank) in late 2002, it became an interstate bank with four locations, two in Arizona and two in Iowa. Headquarters remains in Gilbert, Arizona. The bank is a wholly owned subsidiary of Heartland Bancshares, Inc., with average assets of \$110 million as of December 31, 2005.

Over the past few years, Union Bank has shifted their lending focus from small business and SBA lending to commercial and residential real estate lending. A new president was appointed in 2004. In addition to managing day-to-day bank operations in Arizona, he is also charged with building and overseeing the bank’s loan portfolio.

The last CRA examination for the former Union Bank of Arizona, N.A., dated May 1, 2000, resulted in a rating of “Satisfactory”. The last CRA exam for the former First Community National Bank of Corning, Iowa was dated April 13, 1998, and also resulted in a “Satisfactory” rating. There are no legal or financial impediments preventing the bank from meeting the credit needs of its AA.

## **DESCRIPTION OF UNION BANK'S ASSESSMENT AREAS**

### **Arizona**

The bank's Arizona AA consists of Maricopa County, Arizona. The AA is comprised of 663 census tracts. Six percent of those tracts are designated as low-income and 27 percent are designated as moderate-income. The population of Maricopa County was reported at 3.2 million in the 2000 census.

The 2005 HUD Updated MSA Median Family Income for the area is \$58,300. The local economy is robust, with jobs, income, and population expanding rapidly according to a December 2005 Moody's Economy.com report. One disadvantage to the recent boom has been the high and rising cost of living, including the price of housing.

The bank has two branches in the Arizona AA. Union Bank's main headquarters is located in Gilbert, Arizona. Gilbert is located in the East Valley of Maricopa County and has a current population of 171 thousand according to the city's website. The bank's other Arizona branch is located in the more rural, but rapidly growing town of Queen Creek, Arizona. The town is located in southeastern Maricopa County and has a current population of about 19 thousand according to the town's website.

We conducted a community contact with the town of Queen Creek. Union Bank has a branch in Queen Creek's Town Center. We spoke to the Assistant Town Manager (ATM), who oversees community development and public works, to determine the credit needs of the area. The ATM directed us to Queen Creek's Redevelopment Plan as a source of information that summarizes the needs and plans for the area. The document describes plans to update and preserve the Town Center and surrounding communities with infrastructure and safety improvements.

Credit needs in the community include opportunities for loans to small businesses for storefront improvements and for financing Town Center improvements such as sidewalks, lighting, and addressing blighted areas. Other needs in the community include affordable housing, both single and multifamily, due to a 50-60 percent spike in home prices over the past two years.

### **Iowa**

The bank's Iowa AA consists of six CTs in Adams, Ringgold, Taylor, and Union Counties. The area is located in rural southwestern Iowa. Total population in these four counties is approximately 29 thousand according to the 2000 Census. All CTs in the AA are designated as middle-income. HUD 2005 updated median family income is reported at \$52,650. Agriculture operations and related businesses contribute significantly to the local economy.

We performed a community contact with an Extension Office for Iowa State University located in Taylor County, Iowa. Taylor County, like many rural Iowa counties, is experiencing a declining economy and a declining population base. In addition to declining, the population is aging with many young people seeking employment and other opportunities in Des Moines or other urban centers in Iowa or out of state.

The primary financial needs for the county include the need for resources for small business development, capital to establish small businesses and small farms, and financial literacy and training for a small but increasing Hispanic population. The interviewee described two of the banks in Taylor County with a primary market share, State Savings Bank and Union Bank, as being supportive of small business and small farm lending in the area.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The bank’s overall CRA performance is *Outstanding*. This is supported by bank-wide conclusions for the LTD, and ratios and separate conclusions by state AA for borrower distribution, geographic distribution, and complaints, according to small bank CRA examination guidelines.

### Loan-to-Deposit Ratio

LOAN TO DEPOSIT (LTD) RATIO SUMMARY	
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Union Average. LTD Ratio	90%
Other Institutions – Average. LTD Ratio	60%
Other Institutions - High Average. LTD Ratio	87%
Other Institutions - Low Average. LTD Ratio	39%

The bank’s quarterly average LTD ratio is more than reasonable, taking into account lending related activities and, given the bank’s size, financial condition, AA credit needs, and other performance context issues.

In the table above, the LTD ratio is calculated over the last 20 quarters (from March 2001 through December 2005). The bank was compared to six other financial institutions, two that operate in the same Iowa CTs, and four that operate in the same Maricopa County, Arizona CTs. All of these comparator banks have lower ratios than Union Bank. Two of the comparator banks in Arizona are new banks, which did not begin operations until 2003. Such new banks typically have lower LTD ratios. Union Bank’s LTD ratio has been strong during the entire evaluation period.

## Lending in Assessment Area

<b>Lending in the Arizona and Iowa Assessment Areas</b>										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage	138	71	57	29	195	7,341	71	3,024	29	10,365
Agricultural	19	95	1	5	20	1,353	99	17	1	1,370
Small Business	13	65	7	35	20	3,677	68	1,698	32	5,375
<b>Totals</b>	<b>170</b>	<b>72</b>	<b>65</b>	<b>28</b>	<b>235</b>	<b>12,371</b>	<b>72</b>	<b>4,739</b>	<b>28</b>	<b>17,110</b>

Source: Home mortgage loan data is from 2004-2005 HMDA LAR; small business and farm loan data are from our sample of loans for 2004-2005.

A majority of the number and dollar amount of loans are inside the bank's AA as noted in the table above. The totals are strongly influenced by the home mortgage data over the small business and agricultural loan data because of their small sample sizes compared to using 100 percent of the home mortgage database. Small business loans are the more predominant loan products on the bank's balance sheet. However, the results for small business loans still reflect a majority of the loans inside the bank's AA.

## Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Given the demographics of the AA, the borrower distribution reflects overall excellent penetration among individuals of different income levels (including LMI) and businesses and farms of different sizes. The residential and business loans in the Arizona AA, and the residential and agricultural loans in the Iowa AA are analyzed separately against each area's own demographics in the tables below.

<b>Borrower Distribution of Residential Real Estate Loans in Arizona AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	19	16	18	27	22	28	41	24
Home Improvement	19	0	18	0	22	0	41	0
Refinancing	19	9	18	32	22	36	41	23
<b>Total</b>	<b>19</b>	<b>14</b>	<b>18</b>	<b>28</b>	<b>22</b>	<b>29</b>	<b>41</b>	<b>24</b>

Source: Data reported under HMDA; U.S. Census data. Total number of loans does not add up to 100 percent because some loans do not have income information.

<b>Borrower Distribution of Residential Real Estate Loans in Iowa AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	22	0	22	0	25	0	31	0
Home Improvement	22	0	22	0	25	50	31	50
Refinancing	22	20	22	20	25	20	31	20
<b>Total</b>	<b>22</b>	<b>14</b>	<b>22</b>	<b>14</b>	<b>25</b>	<b>29</b>	<b>31</b>	<b>29</b>

Source: Data reported under HMDA; U.S. Census data. Total number of loans does not add up to 100 percent because some loans do not have income information.

Performance for total residential mortgage lending to borrowers of different income levels reflects reasonable dispersion throughout the AA. In the Arizona AA, the percentage of the number of loans exceeds the demographic of the percentage of AA families who are moderate-income, and is lower than the demographic for low-income borrowers. In this AA, the bank's primary residential mortgage lending product is for mobile homes. This alternative housing helps to serve a segment of the moderate-income population. In the Iowa AA, the percentage of the number of loans is lower than the demographic for LMI borrowers.

<b>Borrower Distribution of Loans to Businesses in Arizona AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	<b>61</b>	6	33	100%
% of Bank Loans in AA by #	<b>85</b>	15		100%
% of Bank Loans in AA by \$	<b>90</b>	10		100%

Source: Loan sample; Dunn and Bradstreet data.

Performance for lending to businesses of different sizes is excellent. The number and dollar of loans exceeds the demographic of the percentage of AA businesses with gross revenues of less than \$1 million. Since business loans are the more significant loan product at the bank, more weight is given to this performance in arriving at the overall borrower distribution rating.

<b>Borrower Distribution of Loans to Farms in Iowa AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	<b>97</b>	2	1	100%
% of Bank Loans in AA by #	<b>90</b>	0	10	100%
% of Bank Loans in AA by \$	<b>99</b>	0	1	100%

Source: Loan sample; Dunn and Bradstreet data.

Performance for lending to farms of different sizes is excellent. The percent of the dollar amount of loans exceeds the demographic of the percentage of AA farms with gross revenues of less than \$1 million. The percent of the number of loans is near the demographic.

## Geographic Distribution of Loans

The geographic distribution of loans reflects excellent dispersion throughout the AA. Business loan performance was given higher weight due to substantially higher volume compared to residential loans. The residential and business loans in the Arizona AA are analyzed separately in the tables below. There is no geographic distribution analysis for Iowa because all the CTs in that portion of the AA are middle-income and the analysis would not be meaningful.

Geographic Distribution of Residential Real Estate Loans in Arizona AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	2	2	21	57	40	36	37	5
Home Improvement	2	0	21	0	40	0	37	0
Refinancing	2	0	21	82	40	18	37	0
Total	<b>2</b>	<b>1</b>	<b>21</b>	<b>61</b>	40	33	37	4

Source: Data reported under HMDA; U.S. Census data.

Performance for total residential mortgage lending in different geographies reflects excellent dispersion throughout the AA. In the Arizona AA, the percentage of the number of loans exceeds the demographic of the percentage of AA families with moderate-income families and meets the demographic with low-income families.

Geographic Distribution of Loans to Businesses in Arizona AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
	<b>6</b>	<b>5</b>	<b>24</b>	<b>28</b>	32	25	38	42

Source: Loan Sample; Dunn and Bradstreet Data.

Performance for lending to businesses in different geographies reflects excellent dispersion in the Arizona AA. To ensure a representative sample, we increased the number of loans reviewed for this performance measure from 20 to 60. Our sample reflected excellent dispersion in moderate-income tracts, with the percent of loans in moderate-income tracts exceeding the percentage of AA businesses with gross revenues of less than \$1 million in moderate-income tracts. The bank had 5 percent of the sample loans in low-income CTs, compared to 6 percent of AA businesses in low-income CTs.

### **Responses to Complaints**

We reviewed the bank's public file for complaints, and complaints reported to the OCC through its customer service hotline. There were no complaints relating to the bank's meeting of the community credit needs through the CRA.

### **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of illegal discrimination or other illegal credit practices.